

## Message Text

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ACTION EUR-12

INFO OCT-01 ISO-00 CIAE-00 PM-03 INR-05 L-02 ACDA-05

NSAE-00 PA-01 RSC-01 PRS-01 SP-02 USIA-06 TRSE-00

SAJ-01 CIEP-01 STR-01 TAR-01 FRB-01 INT-05 GSA-01

COME-00 EB-04 OMB-01 SS-15 NSC-05 /075 W

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TO SECSTATE WASHDC 8302

SECDEF WASHDC

INFO USCINCEUR

AMEMBASSY BRUSSELS

AMEMBASSY BONN

AMEMBASSY THE HAGUE

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AMEMBASSY PARIS

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C O N F I D E N T I A L SECTION 1 OF 2 USNATO 5841

E.O. 11652: GDS: 12-31-80

TAGS: NATO, XG, ETRN

SUBJECT: CENTRAL EUROPE PIPELINE SYSTEM (CEPS) COST SHARING; EIGHT  
NATION PERMREP MEETING, 21 OCT 74

REF: A. USNATO 5745 B. USNATO 5797

BEGIN SUMMARY. CEPPC PERMREPS PROVIDED ANSWERS TO FRENCH POSITION  
PAPER (REF A) AND FRENCH REP AGREED TO INCREASE FRENCH PERCENTAGE  
OF CONTRIBUTION TOWARD DEFICIT BEYOND ITS USE FACTOR, BY AN  
UNDEFINED MARGIN, BUT TO A  
FIGURE BELOW SHARE OF THE US AND THE FRG. UK SUGGESTED THAT CEOA  
FORMULA COULD BE ADJUSTED TO PROVIDE FRENCH SHARE OF 23 PERCENT,  
FRG SHARE OF 24 PERCENT AND US SHARE OF 25 PERCENT AS A COMPROMISE  
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SOLUTION TO LONG STANDING IMPASSE. ACTION REQUESTED: WASHINGTON  
AGREEMENT TO UK SUGGESTION IF REPEAT IF FRANCE AND FRG CAN ACCEPT  
IT AT NEXT CEPPC PERMREP MEETING ON 29 OCT. END SUMMARY.

1. DE STAERCKE (CHAIRMAN) OPENED CEPPC MEETING AT PERMREP LEVEL ON 21 OCT STATING THAT IN VIEW OF FRENCH POSITION PAPER (REF A) HE HAD DOUBTED USEFULNESS OF PRESENT MEETING. HOWEVER, FRENCH DELEGATION HAD REQUESTED MEETING TO SOLICIT NATIONAL RESPONSES TO FRENCH PAPER. IN THAT REGARD DE STAERCKE DISTRIBUTED A "NOTE VERBALE" CONSTITUTING BELGIAN RESPONSE - GENERALLY IN LINE WITH MISSION COMMENTS IN REF A, SUBPARAGRAPHS 2C, D AND G.

2. DE ROSE (FRANCE) EXPLAINED THAT FRENCH AUTHORITIES DID NOT BELIEVE THAT CURRENT DISCUSSIONS SHOULD CONCENTRATE ON DEFICIT BUT RATHER ON THE HOST NATION MANAGEMENT PROCEDURES, AND ON ADVANTAGES/DISADVANTAGES ACCRUING TO THE HOST NATIONS FROM THEIR PARTICIPATION IN THE CEPS. PERMREPS SHOULD NOTE THAT CIVIL REVENUE IN FRANCE HAS SERVED TO REDUCE THE DEFICIT BY ABOUT 50 PERCENT OVER THE LAST SEVERAL YEARS AND THAT CEPS REVENUE IN FRANCE ALMOST MEETS ITS EXPENSES, CONTRARY TO CASE IN OTHER HOST NATIONS. FRANCE BELIEVED THAT NEW FORMULA SHOULD NOT REPRESENT A RADICAL AND ARBITRARY DEPARTURE FROM PRESENT ONE SIMPLY IN ORDER TO REDUCE THE US SHARE FROM 36 TO 24 PERCENT. CEPPC SHOULD ATTEMPT TO UPDATE THE PRESENT FORMULA BASED ON MILITARY USAGE IN TIME OF WAR, TAKING INTO ACCOUNT OTHER RATIONAL FACTORS. HE BELIEVED THAT SUCH A FORMULA WOULD REQUIRE A SMALLER PERCENTAGE CONTRIBUTION FROM THE FRG THAN FROM THE US, WITH THE FRENCH CONTRIBUTION LOWER STILL. DE ROSE SUGGESTED THAT CEPPC HAD BEEN PREMATURE IN FORWARDING QUESTION TO PERMREPS WHEN THEY COULD BETTER HAVE STUDIED THE MATTER FURTHER IN ORDER TO CALCULATE ALL OF THE RELEVANT FACTORS TO BE WORKED INTO A NEW FORMULA. HE THEN REPEATED SEVERAL OF THE POINTS FROM THE FRENCH POSITION PAPER (REF A) TO THE EFFECT THAT CEOA FORMULA HAD ONLY CONSIDERED THE ADVANTAGES FOR FRANCE WITHOUT CALCULATING THE DISADVANTAGES. HE NOTED THAT FRG MILITARY TARIFFS WERE TOO LOW AND THUS FAVORED THE LARGE USERS IN THE FRG: NAMELY THE US AND THE FRG. HE CONCLUDED BY INDICATING THAT FRANCE, WITH A 18.33 PERCENT OF USE, WOULD ACCEPT A SOMWHAT HIGHER SHARE FOR ITS CONTRIBUTIONS TO THE DEFICIT, BUT NOT AS HIGH AS THE FRG OR THE US. HE HOPED TO HAVE AN EXACT FIGURE IN THE NEAR FUTURE.

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3. DE STAERCKE REPLIED THAT THE COST SHARES FOR THE CEPS COULD NEITHER BE CONSIDERED AS "BURDENSARING" NOR COULD THEY BE CALCULATED TO AN EXACT PERCENTAGE. ATTEMPTS TO FIX EACTLY EQUITABLE SHARES IN NATO HAD ALWAYS RESULTED IN FAILURE, WITH EVENTUAL SHARES BEING FIXED ON AN ARBITRARY BASIS. HE AGREED THAT IF MORE TECHNICAL STUDY WERE NECESSARY, THE PERMREPS SHOULD TURN THE MATTER BACK TO THE EXPERTS. BE BELIEVED, HOWEVER, THAT ALL FACETS OF THE PROBLEM HAD BEEN STUDIED AND THE CURRENT ARBITRARY PROPOSAL WAS THE RESULT OF FAILURE TO ACHIEVE A CONSENSUS ON THE FACTS.

4. KRAPF (FRG) DID NOT HAVE DETAILED REPLY TO DE ROSE. HE ASKED, HOWEVER, WHY FRANCE BELIEVED THAT PERCENTAGES SHOULD BE BASED ON

USE OF THE PIPELINE IN TIME OF WAR. HE NOTED THAT IT WAS ONLY BAD LUCK WHICH RESULTED IN GERMANY BEING ON THE FRONT LINE AND THUS DEPENDING ON USE OF THE PIPELINE FOR ITS SECURITY. HE BELIEVED THAT NATO'S DEFENSE WAS A COMMON ONE AND THAT COSTS SHOULD BE BORNE IN COMMON. GERMANY SUPPORTED A FORMULA IN WHICH THE LARGER STATES ALL PAID THE SAME PERCENTAGE OF THE DEFICIT. DE ROSE REPLIED THAT MILITARY USE HAD ALWAYS BEEN THE CRITERIA IN SETTING CEPS COST SHARING FORMULA AND THEREFORE WAS NOT AN INNOVATION. HE CALLED KRAPP'S ATTENTION TO THE FRENCH AGREEMENT TO CONSIDERATION OF OTHER FACTORS IN ARRIVING AT EVENTUAL FORMULA.

5. MCAULIFFE (US) AGREED WITH DE STAERCKE THAT THE PRESENT DISCUSSION WAS TOTALLY UNCONNECTED WITH THE BURDENSARING ACTIVITY. HE CONFIRMED THAT THE US COULD ACCEPT, AS A FIRST STEP TO EQUITY, A US PERCENTAGE OF 24 PERCENT IF FRANCE AND THE FRG COULD DO LIKEWISE.

HE AGREED THAT USE OF THE SYSTEM SHOULD BE A MAJOR FACTOR IN THE DETERMINATION OF NATIONAL CONTRIBUTIONS. HE NOTED, HOWEVER, THAT ADDITION OF FRENCH CEPS USE FACTOR AND 14 PERCENT TO ACCOUNT FOR FRENCH TVA OF FFR 7 MILLION WOULD RESULT IN A FRENCH SHARE OF SOME 32 PERCENT. A SIMILAR CALCULATION FOR GERMANY INCLUDING USE FACTOR AND GASOLINE TAXES RESULTED IN 25 PERCENT. HE ADDED THAT THE US AIM WAS TO ELIMINATE US CONTRIBUTION TO ANY DEFICIT. CEPS SHOULD BE EFFICIENTLY MANAGED TO AVOID ANY MAJOR DEFICIT, EITHER THROUGH REDUCTION BOTH MILITARY AND CIVIL TARIFFS. HE COMPARED THE CEPS TO A COUNTRY CLUB IN WHICH FULL MEMBERS PAID MEMBERSHIPS WHEREAS ASSOCIATED MEMBERS (COMMERCIAL COMPANIES) CONFIDENTIAL

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PAID FIXED FEES AND AT THE END OF THE YEAR DEFICITS WERE SHARED ONLY BY THE FULL MEMBERS. HE CARRIED THE ANALOGY A STEP FURTHER IN NOTING THAT SOME OF THE FULL MEMBERS ALSO HAD A HAND IN FIXING THE FEES FOR THE ASSOCIATE MEMBERS AS WELL AS IN THE EMPLOYMENT AND COSTING POLICIES OF THE CLUB. THE REMAINING FULL MEMBERS, WITHOUT ANY AUTHORITY OVER COSTS OR REVENUES, THEN ONLY HAD THE RIGHT AND OBLIGATION TO PAY THEIR FIXED SHARE OF THE DEFICITS. HE NOTED THAT THIS WAS NOT THE FIRST CASE IN WHICH THE US HAD OBJECTED TO TAXATION WITHOUT REPRESENTATION.

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C O N F I D E N T I A L SECTION 2 OF 2 USNATO 5841

6. DE STAERCKE, REPLYING TO DE ROSE, BELIEVED THAT THE PRESENT SITUATION SHOULD NOT BE REFERRED BACK TO EXPERTS. THEY HAD WORKED ON IT FOR A YEAR AND HAD REFERRED IT TO PERMREPS ONLY WHEN THEY PERCEIVED THAT A POLITICAL SOLUTION WAS REQUIRED.

7. MENZIES (CANADA) NOTED THAT CANADA HAD OFFERED TO PAY TWICE ITS USE FACTOR, WHICH SHOULD PROVIDE PRECEDENT FOR SOME FLEXIBILITY IN THE POSITION OF THE MAJOR HOST NATIONS. HE PERCEIVED THAT FRANCE RECOGNIZED THE NEED TO PAY SOMETHING MORE THAN ITS USE FACTOR AND THEREFORE PERMREPS SHOULD BE DISCUSSING THE SIZE OF THE MARGIN. ADDRESSING THE FRENCH POSITION PAPER, HE NOTED THAT THE LARGE FRENCH CIVIL USE WHICH REDUCES THE DEFICIT IS A RESULT OF INHERENT GEOGRAPHIC ADVANTAGES IN THE FRENCH SYSTEM WHICH WAS BUILT FROM COMMON FUNDS. IN ADDITION, HE NOTED THAT MOST CIVIL MOVEMENTS  
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WERE FOR THE BENEFIT OF THE FRENCH ECONOMY AND THAT, IN THE ABSENCE OF THE CEPS, FRANCE WOULD HAVE HAD TO PROVIDE OTHER TRANSPORT FACILITIES. IN ADDITION, COMMON FUNDS HAD BEEN USED TO IMPROVE THE CIVIL MOVEMENTS IN FRANCE. IN THE MATTER OF TAXES, MENZIES SUGGESTED THAT THE FRENCH PAPER HAD NOT REBUTTED THE CEPPC FINDINGS CONCERNING FRENCH TREASURY REVENUE BUT HAD ONLY INDICATED THEM TO BE OVERSTATED. IN CONCLUSION, HE BELIEVED THAT THE FACTS ON THE TABLE WOULD JUSTIFY A LARGER FRENCH CONTRIBUTION AND REQUESTED THAT THE FRENCH AUTHORITIES PROVIDE THE NEW FIGURE WHICH THEY WOULD BE WILLING TO CONTRIBUTE. HE ADDED THAT THE ORIGINAL CEPS COST SHARING FORMULA HAD BEEN BASED ON MILITARY SUE IN 1964 BECAUSE THERE WAS THEN LITTLE OR NO CIVIL USE. A FORMULA CALCULATED IN 1974 SHOULD BE BASED ON ALL FACTORS AND IF IT WERE TO BE CALCULATED AS THE FRENCH WISHED, HE BELIEVED THAT THE FRENCH SHARE WOULD NOT COME TO LESS THAN THE 24 PERCENT NOW BEING ASKED.

8. PECK (UK) AGREED THAT TECHNICAL CALCULATIONS WOULD NOT RESULT

IN AN AGREED FORMULA. HE SAW NEED FOR AN ARBITRARY SOLUTION. HE ALSO AGREED WITH CANADA ON THE ADVANTAGES TO THE FRENCH ECONOMY OF THE EXISTENCE OF THE CEPS. HE NOTED THAT FRANCE WAS NOW WILLING TO PAY A HIGHER PERCENTAGE THAN ITS USE FACTOR BUT (FOR POLITICAL REASONS) WAS NOT WILLING TO PAY AS MUCH AS THE US AND THE FRG. HE SUGGESTED THAT ALL POINTS COULD BE RESOLVED IF FRANCE COULD AGREE TO PAY 23 PERCENT; FRG 24 PERCENT; AND THE US 25 PERCENT.

9. HARTOUGH (NETHERLANDS) NOTED THAT HIS COMMENTS ON THE FRENCH PAPER WERE ABOUT THE SAME AS THOSE OF THE PREVIOUS SPEAKERS. HE BELIEVED THAT THE PERMREPS SHOULD NOT RETURN THE MATTER TO THE EXPERTS FOR FURTHER STUDY SINCE EACH NATION TENDED TO PLACE SUBJECTIVE VALUES ON THE VARIOUS ELEMENTS. HE HOPED THAT PECK'S SUGGESTION COULD BE ACCEPTED,.

10. DE ROSE AGREED NOT TO REMAND THE REPORT. HE SAID THAT THE EXPERTS WOULD BE UNLIKELY TO REACH AGREEMENT ON THE FACTS AFTER HAVING FAILED TO DO SO DURING A FULL YEAR'S STUDY. FRANCE CONTINUED TO DESIRE AN EQUITABLE SOLUTION NOT AN ARBITRARY ONE, BUT HE DID NOT KNOW WHAT FIGURE HIS AUTHORITIES MIGHT BE WILLING TO ACCEPT. HE WELCOMED PECK'S SUGGESTION AND AGREED TO SEEK INSTRUCTIONS.

11. DE STAERCKE, NOTING IMPOSSIBILITY OF REACHING SOLUTION, SET NEXT MEETING OF CEPPE IN PERMREP SESSION FOR 1700, CONFIDENTIAL

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TUESDAY, 29 OCT.

12. MISSION COMMENT: DE STAERCKE APPARENTLY CONSIDERS PECK SOLUTION A WORKABLE ONE. WASHINGTON AGREEMENT TO US CONTRIBUTION OF 24 PERCENT TOWARD ENTIRE 1974 DEFICIT AND ADVANCE ON 1975 (AS REQUESTED REF B) WILL POSTPONE ANY FINANCIAL CRUNCH UNTIL WELL INTO 1975. ACTION REQUESTED: WASHINGTON PERMISSION FOR MISSION TO AGREE PREVIOUSLY TO US SHARE OF 25 PERCENT ONLY IF REPEAT ONLY IF BOTH FRANCE AND FRG CAN ALSO AGREE PREVIOUSLY AND THUS RESOLVE THE CEPS DEFICIT SHARING MATTER. GUIDANCE REQUIRED BY COB 28 OCT. MCAULIFFE

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## Message Attributes

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